

**Problem Set 2: Due in class on Friday February 1**

Web site: [http://people.ucsc.edu/~walsh/Econ2\\_W08](http://people.ucsc.edu/~walsh/Econ2_W08)

1. For each of the following, explain whether the transaction would be counted in U.S. GDP for 2007, *and explain why* it would or would not be counted.
  - a. A Ford truck manufactured by Ford in Dec. 2006 and sold to a household in Feb. 2007.
  - b. The value of timber cut from U.S. forests in 2007.
  - c. The cost at U.S. airports in 2007 of installing new security machines produced in Sweden.
  - d. The cost of recycling old computer monitors during 2007.
  - e. Stock in a German bank sold by an American investor to a Japanese resident.
2. Stiglitz-Walsh, Chapter 4, page 115, Problem 7.
3. Stiglitz-Walsh, Chapter 4, page 115, Problem 11.
4. Suppose you collected the following information (all numbers in billions of dollars):

Personal consumption expenditures: \$2000  
Indirect business taxes: \$250  
Gross private domestic investment: \$500  
Import: \$300  
Profits, rents, interest, etc.: \$800

Depreciation: \$350  
Income taxes: \$325  
Employee compensation: \$2100  
Government expenditures: \$900  
Exports: \$400

Based on the data given, use two different methods to calculate GDP. Give the name of each method you use and show how you obtained each calculation of GDP.

5. Suppose the introduction of a new technology for production causes an increase in investment at each real interest rate. What will be the impact of this change on the equilibrium real rate of interest and the level of saving and investment if the interest rate elasticity of household saving is zero? How do your answers change if the interest rate elasticity of household saving is positive?
6. Go to the web site for the Economic Report of the President at <http://www.gpoaccess.gov/eop/> Navigate to the List of Statistical Tables for the 2007 report. Download Table B-82 into a spreadsheet program such as Excel and plot the current surplus or deficit (net government saving) of the federal government, state and local governments, and the combined total from 1980 to 2005 (columns G, J, and D respectively). (If you are not already familiar with using a spreadsheet, this is a good opportunity to learn how to use Excel to prepare a graph.) In what year during this period was the federal deficit the largest? In what year was the federal government surplus the largest? In what year was the total government sector deficit the largest? In what year was the total government surplus the largest?